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Accelerating growth; Nagarro costs weigh on reported PAT...

About the stock: Persistent Systems (Persistent) offers cloud, data, product & design led services to BFSI, healthcare & hi-tech verticals.

Q2FY27 performance: Revenues at US\$487.6 mn, up 7.8% QoQ/20.0% YoY (up 7.8% QoQ/20.8% YoY in CC terms). Reported EBIT margin stood at 15%, down 100 bps QoQ/ 130 bps YoY. Reported PAT declined 27.2% QoQ/25.4% YoY to ₹352 crore, including ₹185 crore of one-time Nagarro acquisition-related expenses which impacted PAT.

Investment Rationale:

- Strong trailing deal bookings support revenue visibility despite quarterly moderation: Quarterly TCV and ACV declined 44.7% QoQ (up 4% YoY) and 10.4% QoQ (up 7.4% YoY). While TCV moderated from US\$1.15 bn in Q1FY27 (which included a US\$650 mn large deal), management attributed the moderation partly to deal slippages & slower decision-making amid macroeconomic & Middle East uncertainty and on a TTM basis, TCV and ACV bookings grew a healthy 36.3% and 21.9% YoY, respectively. **We expect the reported US\$ revenue to grow at 44.9% CAGR (organic growth of 16.9% CAGR) over FY26-28E.**
- Nagarro acquisition offers strategic scale, with margin recovery key to upside:** The Nagarro combination would create a ~US\$2.9bn revenue-run-rate group with 46,000+ employees across 40 countries, strengthening Persistent's European presence. Q2FY27 EBIT margin declined 100bps QoQ to 15%, as net wage-hike impact (-140bps), lower utilisation (-20bps) and deal-related amortisation (-90bps) were partly offset by lower engineering costs and favourable currency movements (+150bps). **Management aspires to achieve 16-17% margins through cost optimisation and revenue scaling.** However, ~US\$50mn of acquisition-related expenses over three to four quarters (of which ~US\$19-20 mn was incurred in Q2FY27, with a further US\$25-30 mn expected over the next two quarters), potential equity dilution from Nagarro related equity fund raise of US\$450 mn, debt service costs and pending approvals remain key risks. **Accordingly, we have baked in EBIT margins of 15.7%/12.7% in FY27E/FY28E, with FY28 margin dilution owing to Nagarro consolidation.**
- AI-led digital engineering capabilities support sustained growth:** Persistent delivered a strong quarter, with revenue growth accelerating to 7.8% QoQ from 3.8% in Q1FY27 and broad-based growth across verticals though Europe revenue declined 10% QoQ/ 8.5% YoY due to two client-specific programme ramp-downs. It is well-positioned to capitalise on enterprise demand for AI-led software modernisation & digital engineering as its software-reinvention offering targets AI-native product development and legacy modernisation, creating opportunities for deeper client engagement.

Rating and Target Price: Given the sustained growth momentum and on track Nagarro merger process, **we maintain BUY rating, with a target price of ₹6,550; valuing it at 37x FY28E EPS.**



PERSISTENT

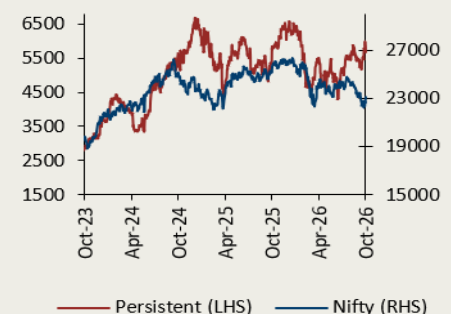
Particulars

Particular	Amount
Market Cap (₹ Crore)	89,760
Total Debt (₹ Crore)	300
Cash & Invests (₹ Crore)	2,133
EV (₹ Crore)	87,927
52 week H/L	6599/4244
Equity capital	78.9
Face value	5.0

Shareholding pattern

	Dec-25	Mar-25	Jun-26	Sep-26
Promoter	30	30	30	30
FII	23	22	21	21
DII	30	30	30	32
Public	17	17	19	17

Price Chart



Key risks

- Slower conversion of TCV to ACV to revenue
- Delay in Nagarro integration

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Key Financial Summary

(₹ Crore)	FY24	FY25	FY26	5 Year CAGR (FY21-26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
Net Sales	9,822	11,939	14,748	28.6%	18,743	32,995	49.6%
EBITDA	1,724	2,058	2,706	31.7%	3,495	5,675	44.8%
EBITDA Margins (%)	17.6	17.2	18.4		18.6	17.2	
Net Profit	1,093	1,400	1,865	32.9%	2,189	2,786	22.2%
EPS (₹)	69.3	88.8	118.2		138.7	176.6	
P/E (x)	78.5	64.1	48.1		41.0	32.2	
RoCE (%)	28.8	27.6	28.5		27.5	32.0	
RoE (%)	22.1	22.2	23.8		23.0	24.1	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** Persistent reported Q2FY27 revenue of US\$487.6 mn (₹4,663.9 crore), up 7.8% QoQ and 20.0% YoY (up 7.8% QoQ and 20.8% YoY in CC terms), marking its 26th consecutive quarter of sequential revenue growth.
- **Margin performance:** EBIT margin stood at 15.0%, down 100 bps QoQ and 130 bps YoY. Sequentially, the net impact of wage hikes was -140 bps, lower utilisation -20 bps and incremental third-party tools/licence amortisation related to a large deal -90 bps, partly offset by lower engineering expenses and favourable currency movements (+150 bps). Reported PAT declined 27.2% QoQ/25.4% YoY to ₹352 crore, impacted by ₹185 crore of one-time Nagarro acquisition-related expenses which impacted PAT and EPS by ~3.1%.
- **Segment Performance:**

Exhibit 1: Vertical wise growth trend

Vertical	% of revenue mix	QoQ \$ growth %	YoY \$ growth %
Technology Cos. & Emerging Verticals	42.8	13.3	28.4
Life Sciences and healthcare	23.5	0.1	11.9
Financial Services	33.7	6.8	16.2

Source: Company, ICICI Direct Research

- **Geography Performance:**

Exhibit 2: Geography wise growth trend

Geography	% of revenue mix	QoQ \$ growth %	YoY \$ growth %
North Americas	81.4%	10.9%	22.4%
Europe	7.1%	-10.0%	-8.4%
ROW	2.3%	-4.7%	62.4%
India	9.2%	1.2%	20.0%

Source: Company, ICICI Direct Research

- **Europe:** Management attributed the European decline to two client-specific programme ramp-downs, including the impact of a client acquisition and the planned completion of another fixed-price engagement, rather than broad-based regional weakness. Europe remains strategically important, with the proposed Nagarro acquisition expected to strengthen its nearshore delivery footprint & regional capabilities
- **TCV/ACV performance:** Persistent reported Q2FY27 TCV of US\$633.5 mn (down 44.7% QoQ/ up 4% YoY), including US\$367.1 mn of new TCV, and ACV of US\$481 mn (down 10.4% QoQ/ up 7.4% YoY), including US\$262.3 mn of new ACV. Quarterly TCV declined 44.7% QoQ and ACV declined 10.4%, partly reflecting a high Q1 base that included a strategic deal worth over US\$650 mn. Management cited deal slippages and slower client decision-making amid macroeconomic and Middle East uncertainty. However, trailing-12-month TCV grew 36.3% YoY to ~US\$3.06 bn & ACV grew 21.9% to ~US\$1.96 bn, supporting longer-term revenue visibility.
- **Outlook:** Management remains confident of growth across business segments, supported by a healthy pipeline, AI-led transformation programmes and continued demand for software modernisation. Management aspires to EBIT margins of 16–17%, supported by revenue scaling and cost optimisation.
- **AI/ Gen AI:** Persistent continues to strengthen its AI-led positioning through its 3C framework—Core, Context and Coordination and offerings focused on AI-native software development, legacy modernisation and agentic automation. Management highlighted the increasing integration of AI into enterprise transformation engagements, with opportunities to

improve engineering productivity and accelerate product development. The company's AI-led software reinvention capabilities and partnerships across the technology ecosystem remain important differentiators.

- **Employee Addition & Attrition:** Total employee headcount increased by 958 QoQ to 29,598, reflecting proactive hiring ahead of large-deal ramp-ups. Utilisation declined 70 bps sequentially to 85.8%, creating a 20-bps headwind to EBIT margin. Attrition came at 11.9%, down 40 bps QoQ.
- **Update on Nagarro Acquisition:** Persistent has secured ~94.04% of Nagarro's share capital and voting rights, excluding treasury shares, following the closure of the offer acceptance period on October 6, 2026. The company intends to squeeze out the remaining minority shareholders post-merger. Merger-control and FDI clearances have been received except for Austria and Spain, while RBI approval has been applied for. **Management expects closure in Q4CY26 or Q1CY27.**
- **Fund Raising for Nagarro Acquisition:** The company intends to replace the EUR 1.4bn, 18-month bridge facility with longer-tenure capital on favourable terms. The proposed financing includes US\$ 1.25bn through debt and equity, of which US\$ 450mn would be raised through equity, QIP, equity-linked instruments such as FCCBs, or a combination. Management indicated an acquisition debt cost of 5–6% on a net basis, subject to terms at execution. Persistent's Special Committee, on October 16, 2026, approved the terms for issuance of non-convertible debentures (NCDs of up to ₹8,000 crore) and commercial paper (CP of up to ₹1,000 crore) through private placements as part of the long-term debt financing for the Nagarro acquisition. The NCDs are proposed to be listed on the NSE, while the commercial paper is also proposed to be listed on the NSE and will have a tenure of up to one year. The approval establishes a debt-funding route for the acquisition.
- **Acquisition-Related Expenses:** Persistent expects total Nagarro acquisition-related expenses of ~US\$50 mn over three to four quarters, of which US\$19–20 mn was incurred in Q2FY27. These costs include investment banking fees, bridge-loan commitment charges, legal and regulatory expenses, travel and certain funding costs.

Exhibit 3: Quarter Performance

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
Revenue (USD mn)	487.6	406.2	20.0	452.4	7.8	Revenue grew 7.8% QoQ/ 20.8% YoY in CC terms
Revenue	4,663.9	3,580.7	30.3	4,303.2	8.4	
Employee expenses	3,089.9	2,292.4	34.8	2,791.5	10.7	
Gross Margin	1,574.0	1,288.3	22.2	1,511.7	4.1	
Gross margin (%)	33.7	36.0	-223 bps	35.1	-138 bps	
Other expenses	709.6	604.6	17.4	709.5	0.0	
EBITDA	864.4	683.8	26.4	802.2	7.8	
EBITDA Margin (%)	18.5	19.1	-56 bps	18.6	-11 bps	
Depreciation & amortisation	166.7	100.1	66.6	115.3	44.6	
EBIT	697.7	583.7	19.5	686.9	1.6	
EBIT Margin (%)	15.0	16.3	-134 bps	16.0	-100 bps	Sequentially, the net impact of wage hikes was -140 bps, lower utilisation -20 bps and incremental third-party tools/licence amortisation related to a large deal -90 bps, partly offset by lower engineering expenses and favourable currency movements (+150 bps).
Other income	-58.7	33.1	-277.4	-63.8	-8.0	
PBT	639.0	616.8	3.6	623.1	2.6	
Tax paid	102.2	145.4	-29.7	140.1	-27.1	
PAT	351.5	471.5	-25.4	483.0	-27.2	Reported PAT declined 27.2% QoQ/25.4% YoY to ₹352 crore, impacted by ₹185 crore of one-time Nagarro acquisition-related expenses which impacted PAT and EPS by ~3.1%.

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY27E			FY28E		
	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	1,940	1,974	1.8	3,442.9	3,473	0.9
Revenue	18212	18743	2.9	32,191	32995	2.5
EBIT	2912	2949	1.3	4,162	4200	0.9
EBIT Margin (%)	16.0	15.7	-26 bps	12.9	12.7	-20 bps
PAT	2251	2189	-2.8	2,758	2786	1.0
Diluted EPS (₹)	142.7	138.7	-2.8	175	176.6	1.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement		₹ crore		
(Year-end March)	FY26	FY27E	FY28E	
Total Revenues	14,748	18,743	32,995	
Growth (%)	23.5	27.1	76.0	
Employee & Subcon costs	9,576	12,216	21,644	
Total Operating Expenditure	12,042	15,248	27,319	
EBITDA	2,706	3,495	5,675	
Growth (%)	31.5	29.1	62.4	
Depreciation & Amortization	403	546	1,475	
Other Income	108	(149)	125	
Interest	-	-	659	
PBT before Excp Items	2,411	2,800	3,666	
Growth (%)	32.3	16.1	30.9	
Tax	546	611	880	
PAT before Excp Items	1,865	2,189	2,786	
Exceptional items	-	-	-	
PAT before MI	1,865	2,189	2,786	
Minority Int & Pft. frm associate	-	-	-	
PAT	1,865	2,189	2,786	
Growth (%)	33.2	17.3	27.3	
Diluted EPS	118	139	177	
EPS (Growth %)	33.2	17.3	27.3	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement		₹ crore		
(Year-end March)	FY26	FY27E	FY28E	
PBT	2,411	2,800	3,666	
Depreciation & Amortization	403	546	1,475	
WC changes	(579)	(936)	(959)	
Other non cash adju.	157	149	(125)	
CF from operations	1,767	1,947	3,177	
Capital expenditure	(302)	(1,499)	(2,640)	
Δ in investments	(358)	-	-	
Other investing cash flow	50	(149)	125	
CF from investing Activities	(610)	(1,648)	(2,514)	
Issue of equity	-	-	-	
Δ in debt funds	-	-	-	
Dividends paid	(579)	(523)	(727)	
Other financing cash flow	(169)	-	(659)	
CF from Financial Activities	(748)	(523)	(1,386)	
Δ in cash and cash bank balance	409	(224)	(723)	
Effect of exchange rate changes	(9)	-	-	
Opening cash	1,025	1,218	994	
Cash c/f to balance sheet	1,218	994	271	

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet		₹ crore		
(Year-end March)	FY26	FY27E	FY28E	
Liabilities				
Equity	79	79	79	
Reserves & Surplus	7,759	9,425	11,484	
Networth	7,838	9,504	11,563	
Minority Interest	-	-	-	
Long term Liabilities & provisions	614	686	1,940	
Source of funds	8,452	10,189	13,503	
Assets				
Net fixed assets	955	1,521	3,381	
Net intangible assets	579	966	1,230	
Goodwill	1,360	1,360	2,060	
Other non current assets	686	686	686	
Investments	700	700	700	
Debtors	2,133	2,824	4,972	
Current Investments	915	915	915	
Cash & Cash equivalents	1,218	994	271	
Other current assets	2,831	3,157	4,317	
Trade payables	1,134	1,181	2,079	
Current liabilities	1,790	1,752	2,949	
Application of funds	8,452	10,189	13,503	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY26	FY27E	FY28E	
Per share data (₹)				
Diluted EPS	118.2	138.7	176.6	
Cash Per Share	77.2	63.0	17.2	
BV	496.9	602.5	733.0	
DPS	26.8	27.5	38.3	
Operating Ratios (%)				
EBITDA Margin	18.4	18.6	17.2	
PBT Margin	16.3	14.9	11.1	
PAT Margin	12.6	11.7	8.4	
Turnover Ratios				
Debtor days	53	55	55	
Creditor days	28	23	23	
Return Ratios (%)				
RoE	23.8	23.0	24.1	
RoCE	28.5	27.5	32.0	
RoIC	36.5	35.6	34.1	
Valuation Ratios (x)				
P/E	48.1	41.0	32.2	
EV / EBITDA	32.5	25.2	15.8	
Market Cap / Sales	6.1	4.8	2.7	
Solvency Ratios				
Current Ratio	1.7	2.0	1.8	
Quick Ratio	1.7	2.0	1.8	

Source: Company, ICICI Direct Research

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